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Hq Western District
Auditor General
Comptroller, USAF
1206 Maple Avenue (Rm 916)
Los Angeles 15, California

1 December 1958

SUBJECT: Advisory Report on Evaluation of Proposed Rates
Fairchild Camera & Instrument Corp.
Defense Products Division
Syosset, New York
Subcontract Proposal No. SC-28
With Itek Corporation
Boston, Massachusetts
Period: 1 May 1958 to 31 December 1959

TO: Contracting Officer

REF: COR-0128 dated 27 August 1958

1. An evaluation of the referenced subcontract proposal, dated 13 November 1958, in the amount of \$2,410,144, was made for the purpose of determining acceptability of the proposed rates.

2. This proposal supersedes the initial proposal for \$2,346,076 dated 11 July 1958, as well as the first revision, SC-18, for \$2,772,889 dated 6 October 1958.

3. The scope of our examination was as follows:

a. All calculations contained in the proposal were verified.

b. All rates, including the following, were verified:

(1) Direct Engineering Labor rates.

(2) Direct Factory Labor rates.

(3) Engineering Overhead rates.

(4) Factory Overhead rates.

(5) General & Administrative rate.

(6) Packaging rate for spare parts included in Estimate No. IV.

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c. Costs to date, as shown in Estimates Nos. I, II, III, and IV, and totalling \$535,185, were verified. These represent actual costs incurred, as shown by the subcontractor's records, for the period 1 May 1958 to 30 September 1958. However, no attempt was made at this time to audit the individual items of cost.

d. We also reviewed the estimated amounts shown for travel expense in Estimates Nos. I and III, totalling \$37,520.

4. We did not review the following elements, since they were considered to be items requiring technical or other determination:

a. Labor Hours.

b. Estimated material and other Direct Costs exclusive of Travel and Packaging.

c. Allowance for Fixed Fee.

5. Computation of Labor Rates: The subcontractor utilized composite labor rates for each labor classification, computed as follows:

a. Actual average rates for each labor classification as of 1 June 1958 were arrived at by tab run of the payroll.

b. Estimated rates for the remaining periods of subcontract work were arrived at by adding to these rates the following provisions for merit and general increases:

	2nd Half <u>1958</u>	1st Half <u>1959</u>	2nd Half <u>1959</u>
Engineering	3%	3%	3%
Factory	3%	2%	3%

c. Estimated total hours by classification were then apportioned to the above-mentioned three periods.

d. Utilizing the estimated hours for each of the three periods times the estimated labor rates, composite labor rates for each labor classification were arrived at.

e. The resulting composite rates were then increased by $\frac{3}{4}$ of 1% to give effect to the night shift premium of 15%. (It is estimated that 5% of total estimated labor will be performed by the night shift - $1.00 \times .15 = .15 \times .05 = .0075$.) These adjusted composite rates are the rates contained in the subcontractor's cost proposal.

6. Overhead Rates:

a. It has been the subcontractor's practice in the past to negotiate overhead rates on a semiannual basis. Information furnished by the subcontractor's AF auditors indicated that in the past overhead disallowances have been practically nil. Although overhead rates have not yet been negotiated for the periods of the subcontract, the rates utilized were as follows:

	<u>Engineering</u>	<u>Factory</u>	<u>G&A</u>
<u>Included in Costs to Date:</u>			
1 May 1958 to 30 June 1958	130%	170%	15%
1 July 1958 to 30 Sept 1958	120%	170%	15%
<u>Utilized for Estimated Costs:</u>			
1 Oct 1958 to 31 Dec 1959	120%	175%	15%

b. Book overhead rates for the year 1958 to date were as follows:

1 Jan 1958 to 30 June 1958	130%	172%	16%
1 July 1958 to 30 Sept 1958	113%	187%	15%

c. Overhead rates submitted to the AF contracting officer for quotation purposes for the period 11 July 1958 to 31 December 1958 were as follows (although not formally approved):

120%	175%	15%
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d. The increase in the factory overhead rate since 30 June 1958 was due to the lay-off of most of the production personnel. Although the rate for the quarter ending 30 September 1958 was 187%, it is contemplated that sufficient shop orders will be received in the next few months to lower this rate to 175% for the balance of the contract.

7. Packaging Rate for Spare Parts (Estimate No. IV): The rate utilized, 1.5% of total costs exclusive of packaging, is the rate currently approved by the AF contracting officer. However, the actual rate is now approximating 3% and the contractor plans to request the Air Force contracting officer to approve a 3% rate in the near future.

8. Travel Expense: Travel expense included in Estimates Nos. I and III includes subsistence at \$15 per day. Estimated transportation costs, as well as the number of trips, appear to be reasonably computed.


9. Results of Examination: The labor rates, overhead rates, estimated travel expense, and estimated packaging expense for spare parts included in the subcontractor's proposal are considered to be reasonable for purposes of this procurement.

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10.  contract administrator, was informed of the results of our examination prior to the departure of the project auditor from the subcontractor's plant.

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Subcontract Proposal
SC-28 with incls



Project Supervisor
Western District
Auditor General